

in the short term, based on a set of 25 fiscal, financial and competitiveness variables. The S1 is the medium term sustainability indicator which shows what additional adjustment is required, in terms of improvement in the government primary balance in structural terms over the next 5 years, in order to reach the 60% debt-to-GDP ratio within 15 years. The S2 is the long term sustainability indicator which shows the adjustment in the current primary balance in structural terms that is required in order to stabilise the debt-to-GDP over the infinite horizon.⁴⁷

The DSA framework includes 5 objective criteria to determine the degree of vulnerability of countries in terms of their risks to public debt sustainability (see Box 6.1). If a country is found to be vulnerable on the basis of these criteria, apart from the standard DSA, an enhanced DSA is carried out by the COM, where additional discussions are held regarding the assumptions used for the projections and the actual risks, and the analysis is supplemented with additional sensitivity tests around the baseline public debt projections.

Box 6.1: Debt Sustainability Analysis

If one or more of the following criteria are met, countries are subjected to an enhanced DSA.

1. the country has a value of the composite indicator of short-term fiscal stress risk, S0, above the critical threshold, and/or a value of the S0 fiscal sub-index above threshold;
2. the country's current and/or forecasted gross public debt is at, or higher than, 90% of GDP;
3. the country's current and/or forecasted change in gross public debt over GDP is at, or higher than, 5 pp;
4. the country's gross financing needs are at, or higher than, 15% of GDP; or
5. the country is under a macroeconomic adjustment programme, under post-programme surveillance or enhanced surveillance as from the Two-Pack regulation.

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In the event that none of the criteria used to identify a vulnerable country are met, only a standard DSA would be carried out. The standard DSA relies on several tools including: deterministic and stochastic public debt projections; sensitivity analysis of key variables around baseline public debt projections; the analysis of risks relating to the financing of public debt and government contingent liabilities; financial market information; and forecast accuracy analysis.

⁴⁷ The Debt Sustainability Monitor 2016 may be accessed https://ec.europa.eu/info/publications/debt-sustainability-monitor-2016_en.